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COMMITTEE ON NEBRASKA RETIREMENT SYSTEMS
January 25, 2005
Confirmation Hearing

The Committee on Nebraska Retirement Systems met at 8:30 a.m. on Tuesday, January 25, 2005, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on a gubernatorial appointment. Senators present: Elaine Stuhr, Chairperson; John Synowiecki, Vice Chairperson; Patrick Bourne; Philip Erdman; Don Pederson; and Marian Price. Absent: None.

SENATOR STUHR: Good morning, ladies and gentlemen. We're ready to begin the confirmation hearing for the Nebraska Retirement Systems Committee. And to my far right, we'll make some introductions, are Senator Marian Price from Lincoln; Senator Pat Bourne is not with us; Jason Hayes, our legal counsel; myself, Elaine Stuhr, and I serve as Chair of the committee. And to my left, Senator John Synowiecki from Omaha who serves as Vice Chair of the committee; and Senator Phil Erdman who is not with us today, and Senator Don Pederson from North Platte; and also our committee clerk, Kathy Baugh. All right. I don't believe that we're going to have to go through all of the turn off the cell phone and pagers. We'll just go ahead and start. This morning we have with us John Maddux and he is wanting to be reconfirmed as a member of the Nebraska Investment Board. So I was wondering if you would just please tell us a little bit about your background. That's usually how we start, so welcome, John.

CONFIRMATION HEARING OF
JOHN MADDUX TO THE
NEBRASKA INVESTMENT COUNCIL

JOHN MADDUX: All right. Well, I ranch in western Nebraska; born and raised in Wauneta and live between Imperial and Wauneta; went to high school there; got my animal science degree here in Lincoln; went out and worked for a couple of years and went to the University of Chicago; got my MBA; decided I liked Wall Street a lot better than punching cows, so I went to New York and worked for Goldman Sachs for 11 years and worked in the municipal finance area. And quit my job, oh, four or five years ago and bought a ranch out in western Nebraska and went back and I'm now back punching cows again.

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SENATOR STUHR: Okay. So they really can't take the ranch out of the boy, can they?

JOHN MADDUX: Yeah, and I think it's important that I give you full disclosure here, that the last confirmation hearing we had there was Bob Wickersham and Roger Wehrbein, two good legitimate cattlemen, who were on the Retirement Committee then. And, you know, they voted for my confirmation in spite of the fact that I went from Wall Street back to the cattle business (laughter), but they didn't think that was such a wise or very good evidence of sound financial judgment. But they voted for me in spite of it.

SENATOR STUHR: All right, well, can you share with us how long then have you served on the Investment Council?

JOHN MADDUX: I think it's three years.

SENATOR STUHR: Okay, the last three years. What...are there any questions from the committee members? I just wanted to ask you what you felt were your responsibilities as a board member of the council, of the Investment Council? What are some of the...

JOHN MADDUX: I think it's pretty clear cut. I'm a fiduciary and, you know, I am working for the best interests of the retirement...of the retirees of the state of Nebraska and future retirees. It's not just the present retirees. One of the key things I think to keep in mind is that you're also working for the future retirees. And that kind of brings up a point I wanted to make to the Retirement Committee is that, I think it's not lost on any of you, but one of the big problems that we have is we have a way of funding liabilities that are way, way out in the future. And the only way we know about these assets today is having a valuation of what they're worth today. We have no real way of knowing what those assets are, you know, in 40 years when we have to fund these big liabilities that we have out in the future. So because of that, because we can only look at what those assets are worth today, sometimes we, in an actuarial way, will say that, you know, we are overfunded and, you know, in our pension fund. However, the key thing to point out is markets are very transient; and we just have gone through a tremendous, you know, market correction. And

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markets go up and markets go down so that overfunded status is really an illusion because of the fact that we have such a long-dated liability out there and that we can only judge the assets presently. So I just wanted to caution the Retirement Committee because I know that other states, especially Colorado, which I live right next to Colorado and follow their politics closely, got into a heck of a mess because in the late nineties, you know, they had this overfunded status and they sweetened the pension benefits of the state and now they have horrendous liabilities facing them because those...that overfunded status was truly an illusion and was only one tiny little point in time against the backdrop of the very long liability out there. And this is something that concerns me. It really concerns me and that's why my obligation is not only to the present retirees, but also those future retirees. And if we have all this pressure from all the interest groups to sweeten the pension liabilities or pension benefits, it puts incredible pressure on us to increase the bogey (sic) of what kind of assets have to return and, you know, forces us into taking more and more risk within the portfolio in order to fund these big benefits out in the future. So, you know, that is one of my big concerns that we be careful to make sure that we don't sweeten the pot and then don't have the assets to fund that increased liability way out in the future. That's one of my big concerns, and I just wanted to bring it to your attention and make sure that you knew that was a concern. And I think, I'm not speaking for the board, but I know it's a consensus within our council about that concern.

SENATOR STUHR: Okay, thank you. Joining us is Senator Phil Erdman and Senator Pat Bourne. I did notice that the, I guess I don't know what you would exactly call it, the application was dated 2001. And I don't know if there were any changes in the application form that you had submitted at that time.

JOHN MADDUX: I don't think so.

SENATOR STUHR: Okay, thank you. We like to have it as updated as possible. So are there any other questions? If not, thank you for coming and thank you for your service to the council and to the citizens of Nebraska.

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JOHN MADDUX: Very good, appreciate it.

SENATOR STUHR: We appreciate it. Are there others that would like to testify as a proponent for Mr. Maddux? Welcome.

LORAN SCHMIT: Chairman Stuhr, members of the committee, my name is Loran Schmit. I just want to say that I've known the Maddux family for many, many years. I've known John for less than I've known his father, but admire his capabilities and background and don't question his return to agriculture as much as Senator Wehrbein and Wickersham might have. But I do want to say that I think he's an excellent choice and he certainly has touched upon some of the things that need to be touched upon because the retirement system is a real chaotic mess, if you don't pay attention to those items he mentioned. And there's always a tendency, of course, to respond to demands and wishes and needs. But the long-range responsibility of the fund is really important, and so I was glad to hear him talk about that. I remember the times when we didn't have an adequately funded retirement program. It was rather...very, very troublesome and took a lot of work to get it to the point it is today, and I appreciate what you folks are doing to keep it that way. Thank you very much.

SENATOR STUHR: All right, thank you. Thank you for coming. Are there any questions for Mr. Schmit? Okay, thank you.

LORAN SCHMIT: Thank you.

SENATOR STUHR: Are there others that wish to testify? Don't believe so. With that, the confirmation hearing is closed. Could we have a motion to go into Exec to consider the confirmation?


Chairperson


Committee Clerk